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BY THE COMPTROLLER GENERAL

Report To The Chairmen

Senate And House

Committees On Armed Services

OF THE UNITED STATES

RELEASED

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# Factors Influencing DOD Decisions To Convert Activities From In-house To Contractor Performance

In reviewing DOD's implementation of OMB Circular A-76, GAO found that:

- Cost comparisons showing lower costs for contractor performance were the most significant influence on decisions to contract out.
  - Estimated cost savings were generally attributable to contractor plans to use fewer employees and to pay lower wages.
  - Civilian personnel ceilings do not appear to be an influence, although the military services use the A-76 program to reduce their work force.
  - Questionable cost comparison practices influenced decisions to contract out.
- GAO makes recommendations to better ensure:
- Compliance with A-76.
  - That cost comparisons accurately reflect expected costs.
  - Comparability and equity in the cost comparison process.



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The Honorable John Tower  
Chairman, Committee on Armed Services  
United States Senate

The Honorable Melvin Price  
Chairman, Committee on Armed Services  
House of Representatives

This report is in response to concerns expressed by the Senate and House Committees on Armed Services in their conference reports on the Department of Defense (DOD) Authorization Act, 1981. As directed by the Committees' offices, we reviewed DOD's implementation of Office of Management and Budget Circular A-76 to find out how much contracting out is taking place because of personnel ceilings, wage differentials between Federal blue-collar and contractor employees, and other significant influences.

Because some of the data that we obtained is considered to be proprietary information or for official use only, it has not been included in this report but is being provided to you today in a separate letter (PLRD-81-19(A)).

As instructed by the Committees' offices, we did not obtain agency comments because the issuance of this report would have been delayed.

Although Circular A-76 is controversial, and the procedures established to implement it have not been totally accepted by many interested parties, including the General Accounting Office, this office does support the general policy precepts it sets forth.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

A handwritten signature in cursive script that reads "Milton J. Arestan".

Acting Comptroller General  
of the United States



COMPTROLLER GENERAL'S  
REPORT TO THE SENATE AND HOUSE  
COMMITTEES ON ARMED SERVICES

FACTORS INFLUENCING DOD  
DECISIONS TO CONVERT ACTI-  
VITIES FROM IN-HOUSE TO  
CONTRACTOR PERFORMANCE

D I G E S T

Base support services are provided at military installations so that operational units and tenants can pursue mission objectives free from unrelated responsibilities. The support services are similar to those that local governments, utility companies, and the service industry segment of the civilian economy provide.

Recognizing the potential for reducing base support costs, the Department of Defense (DOD) and the military services have established the following three programs.

- The Defense Retail Interservicing Support program which promotes interservice consolidations among the military services.
- The military services' intraservice programs to consolidate support services within each service.
- The Commercial and Industrial-Type Activities (CITA) program which uses executive branch policies and procedures established by Office of Management and Budget (OMB) Circular A-76 for determining whether needed commercial or industrial goods and services should be obtained by contract with private sources or provided in-house using Government facilities and personnel. (See p. 1.)

GAO reviewed DOD's implementation of OMB Circular A-76 to find out how much contracting out is taking place because of (1) personnel ceilings, (2) wage differentials between Federal blue-collar and contractor employees, and (3) other significant influences. (See p. 2.)

GAO selected for review 12 recent DOD commercial or industrial conversions (10 by the Army and 2 by the Air Force) from performance by DOD personnel to performance by private contractors. Those selected took place since October 1979, when the current Circular generally became effective in DOD. They accounted for about 69 percent of the positions eliminated by contracting out since that time. (See p. 3.)

GAO found that:

- The most significant influence on decisions to contract out was a cost comparison showing lower costs for contractor performance. (See pp. 9 and 26.)
- Estimated cost savings were generally attributable to the contractors' plans to use fewer employees and to pay lower wages. (See p. 10.)
- The military services recognize that the CITA program is a valuable means of reducing their civilian personnel work force. However, GAO found no evidence that the desire to circumvent personnel ceilings led to contracting-out decisions. (See p. 9.)

The second largest conversion reviewed involved total installation support at the Hawthorne Army Ammunition Plant in Nevada. GAO found that the Army disregarded serious shortcomings in the contractor's proposal in making its cost comparison. As a result, it is questionable whether the conversion should have taken place. GAO recommends that the Army reevaluate this conversion decision to see if it should be reversed. Also, the corrective action needed in this case should be brought to the attention of all major DOD commands and activities to prevent similar occurrences in the future. (See pp. 18 and 26.)

GAO found some other questionable cost comparison practices by the military services in making contracting-out decisions. However, in the other 11 decisions reviewed, it is not known whether these practices and other potential ones would have been serious enough to affect the outcome.

Specifically, GAO found that:

- Required reviews were not made in 5 of the 12 cases to ensure that the in-house cost estimates were based on the most efficient and cost effective organization and staffing possible. (See p. 16.)
- In one case, an incomplete statement of work in a solicitation for bids significantly overstated the estimated cost comparison savings from contracting out. (See p. 18.)
- In one case, the contract price was understated because the most current Service Contract Act wage rates were not used. (See p. 21.)
- Six of the 12 cost comparisons included contract administration cost estimates which were lower than the actual costs that could be expected. (See p. 22.)

To strengthen the validity of future certifications made to the Congress regarding in-house organizational efficiency and cost effectiveness, GAO recommends that the Secretary of Defense issue more detailed policies, procedures, and regulations which will require reviews to be performed and to be based on the same statements of work that are used in contract solicitations. (See p. 26.)

To better ensure that Circular A-76 cost comparisons prepared in the future result in cost effective decisions, the Secretary of Defense should direct the Secretaries of the Army, Navy, and Air Force to bring the following matters to the attention of their major commands and activities.

- Statements of work should be complete and in-house cost estimates should be based on the same statements of work that are used in contract solicitations.
- Solicitations for bids or proposals should include current Service Contract Act wage rates. (See p. 26.)

To ensure that cost comparisons accurately reflect the cost of contract administration, DOD and OMB should jointly review the standard 4-percent factor required by Circular A-76 and its applicability to all functions, regardless of their complexity. The review should include (1) the possible development of a more accurate costing method for application where the factor is not considered appropriate, and (2) an analysis of the feasibility and practicability of limiting the funding of contract administration costs to a level consistent with the results of the overall review. (See p. 27.)

GAO noted two areas in which the A-76 guidelines appear to need revision to enhance comparability and equity in making cost comparisons. The rules concerning the treatment of unoccupied in-house positions and the adjustment of in-house personnel costs for inflation tend to favor contracting out. OMB should assess the need to modify the guidelines. (See pp. 23, 25, and 27.)

As instructed by the Committees' offices, GAO did not obtain agency comments because the issuance of this report would have been delayed. (See p. 27.)



# C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Contracting out for base support services	1
	Objective, scope, and methodology	2
2	THE DOD CITA PROGRAM	4
	General requirements of Circular A-76	4
	Congressional policy and recurring restrictions	5
	Administration and implementation	6
3	FACTORS INFLUENCING DECISIONS TO CONTRACT OUT	9
	Personnel ceilings and the need to contract out	9
	Personnel cost differentials	10
	Work force size/level of effort	13
	Average wage levels	14
	Cost comparison problems	16
	Organizational reviews not performed	16
	Incomplete statement of work	18
	Contractor's proposed costs too low	18
	Current Service Contract Act wage rates not used	21
	Questionable contract administration costs	22
	Cost comparison rules not equitable	23
4	CONCLUSIONS AND RECOMMENDATIONS	26
	Conclusions	26
	Recommendations	26
	Agency comments	27
APPENDIX		
I	Number of conversions and positions eliminated by type of function--all services, April 1978 through October 1980	28
II	List of installations visited where functions were converted to contractor performance	30

		<u>Page</u>
APPENDIX		
III	Legislative provisions	31
IV	Summary of cost comparison results by installation	34
V	Summary of actions taken at installations to make organizational reviews	35
VI	Analysis of 4-percent contract administration cost factor in Circular A-76 by installation	36

ABBREVIATIONS

AFB	Air Force Base
CITA	commercial and industrial-type activities
DOD	Department of Defense
DOL	Department of Labor
GAO	General Accounting Office
MRA&L	Manpower, Reserve Affairs and Logistics
OMB	Office of Management and Budget

## CHAPTER 1

### INTRODUCTION

#### CONTRACTING OUT FOR BASE SUPPORT SERVICES

Over 100 types of base support services are provided at military installations so that operational units and tenants can pursue mission objectives free from unrelated responsibilities. The support services are similar to those that local governments, utility companies, and the service industry segment of the civilian economy provide.

Recognizing the potential for reducing base support costs, the Department of Defense (DOD) and the military services have established the following three programs.

- The Defense Retail Interservicing Support program. The objective of this DOD-wide program, which is governed by DOD Directive 4000.19, is to promote interservice consolidations among the military services by providing local commanders with a means of improving their operations by achieving the greatest overall effectiveness and economy in retail operations by acquiring support services from other military services/defense agencies through the media of interservice support agreements.
- The military services' intraservice programs to consolidate support services within each service.
- The Commercial and Industrial-Type Activities (CITA) program. This DOD-wide program uses executive branch policies and procedures established by Office of Management and Budget (OMB) Circular A-76 for determining whether needed commercial or industrial goods and services should be obtained by contract with private sources or provided in-house using Government facilities and personnel.

Between April 1978 and October 1980, DOD converted over 200 activities of a commercial or industrial nature from performance by DOD personnel to performance by private contractors. The conversions involved a wide assortment of functions, ranging from individual types of services (laundry and drycleaning; key-punch; custodial; food; guard; maintenance of facilities, motor vehicles, or aircraft; aircraft fueling; etc.), to total installation support for a number of services, to the operation and maintenance of whole installations, such as radio transmitting sites. The conversions eliminated about 7,800 positions in the 200 activities, and DOD expects a cost advantage to the Government of about \$130 million over a 3-year period. Appendix I shows the number of conversions and positions eliminated by type of function.

These decisions implement a long-established, but controversial, executive branch policy. In 1955 the then Bureau of the Budget established a national policy of "contracting out" to the private sector for commercially available goods and services used by the Federal Government as opposed to providing them "in-house," using Government personnel and facilities. Since then, the policy has been a subject of controversy involving the Congress, departments and agencies, industry, and Federal labor unions. Private sector firms, for example, view in-house performance as a multibillion dollar Government competition with private enterprise, and Federal unions view contracting out as uneconomical and a threat to the jobs and financial security of affected civil servants.

The policy is currently stated in OMB Circular A-76, revised March 29, 1979. It provides, when private performance is feasible and no overriding factors such as military necessity require in-house performance, that a rigorous comparison of contract versus in-house costs be used to decide how the work will be done.

Because of increased emphasis on contracting out, the Congress has expressed concern in each of the last 4 years about implementation of the policy in DOD. For example, in fiscal year 1978, the Congress placed a moratorium on the conversion of many base operating support services to contract. In fiscal years 1979, 1980, and 1981, it authorized conversions subject to certain specified restrictions.

#### OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to review DOD's implementation of OMB Circular A-76 to satisfy concerns expressed by the Senate and House Committees on Armed Services in their conference reports on the DOD Authorization Act for fiscal year 1981. We met with their offices and agreed to attempt to find out how much contracting out is taking place because of (1) personnel ceilings, (2) wage differentials between Federal blue-collar and contractor employees, and (3) other significant influences.

We obtained information and documentation on DOD's CITA program, including policies, organization, and management from responsible CITA program officials at the following levels: Assistant Secretary of Defense, Manpower, Reserve Affairs and Logistics (MRA&L); Army Chief of Staff; Deputy Chief of Naval Operations (Logistics); and Air Force Deputy Chief of Staff, Manpower and Personnel. In addition, we visited installations where in-house activities had been converted to contractor performance. The installations are listed in appendix II. At these installations, we reviewed available guidance and correspondence relating to the conversions, cost comparison analyses files, contract files, audit reports, and related studies. We reviewed the cost comparisons only to a sufficient degree to meet our objectives and note generally whether policies were

being followed. We also obtained oral information and clarification on related matters from responsible officials at each installation. We did not evaluate the data base or verify calculations used in the cost comparisons. Further, we did not evaluate actual contractor costs or performance.

We selected 12 recent CITA conversions for review from computerized listings provided by officials in the Office of the Assistant Secretary of Defense (MRA&L). The listings identified all conversions from April 1978 through October 1980. We stratified the listings of the conversions that took place since October 1, 1979, when the current Circular generally became effective in DOD, according to geographical areas covered by each of our regional offices. In each of 10 regional offices, we selected one or more conversions involving the most positions eliminated. The 12 conversions accounted for about 69 percent of the positions eliminated by contracting out during the period selected.

As a result, we selected 10 Army, 2 Air Force and no Navy conversions for review. This seems a reasonably representative selection considering that the Army and Navy accounted for about 87 percent and about 1 percent, respectively, of the positions eliminated by contracting out since October 1, 1979. We did not determine the reliability of the listings because of the time and effort involved. We could not realistically use scientific sampling techniques because (1) there was an uneven distribution of conversions among the services (Army 45, Navy 2, Marines 0, and Air Force 33), (2) unlike the other services, the Army's conversions included several large multifunctional ones, and (3) the 2 Navy conversions were very small.

## CHAPTER 2

### THE DOD CITA PROGRAM

The administration and implementation of the DOD CITA program is governed by policies and procedures established by Circular A-76 and expressions of policy and recurring restrictions enacted by the Congress in annual DOD authorization acts.

#### GENERAL REQUIREMENTS OF CIRCULAR A-76

Circular A-76, which is administered by OMB's Office of Federal Procurement Policy, establishes executive branch policies and procedures to be used to determine whether needed commercial or industrial goods and services should be obtained by contract with private sources or provided in-house using Government facilities and personnel. It provides:

- (1) where private sources are available, they should be looked to first to provide commercial or industrial goods and services needed by the Government;
- (2) inherently governmental functions are to be performed by Government employees; and
- (3) when private performance is feasible and no overriding factors, such as military necessity require in-house performance, rigorous comparison of contract costs versus in-house costs should be used, when appropriate, to decide how the work will be done.

A comprehensive cost comparison handbook is provided as a supplement to the Circular to ensure that comparative cost analyses, when prepared, provide a valid basis for agency decisions. Such analyses are to be made in several specific instances, generally including the conversion of Government activities to contract performance.

Each agency head has the responsibility to ensure that the provisions of the Circular are followed. In implementing the policy, each agency, among other things, is to:

- Designate an official at the assistant secretary or equivalent level to have overall responsibility for implementing the Circular.
- Establish one or more central points of contact to maintain cognizance of, and respond to requests concerning specific implementation actions.
- Promulgate the Circular with necessary internal instructions.

- Compile inventories of all Government commercial or industrial activities and selected contracts for services which could be performed in-house.
- Conduct reviews of in-house activities and contracts on the inventories according to agency-prepared schedules.
- Ensure that contracts resulting from the reviews (1) are awarded to responsible and responsive bidders or offerors, as required by applicable acquisition regulations, and (2) include a provision that the contractor will give the displaced Federal employees the right of first refusal for employment openings for which they are qualified.
- Establish a procedure for an informal administrative review of determinations made under the Circular.

The Circular also clearly states that while agencies will not contract out solely to meet personnel ceilings, they will contract out when justified under the Circular regardless of the relationship between personnel levels and authorized ceilings.

#### CONGRESSIONAL POLICY AND RECURRING RESTRICTIONS

The overall management of DOD's personnel resources is governed by a congressional policy that DOD convert higher cost forms of staffing (military, civilian, or contract) to lower cost forms of staffing, when consistent with military requirements. The policy is stated in section 502 of DOD's Appropriation Authorization Act, 1975. (See app. III.) Although expressed in 1975, it continues to mandate consideration by the Secretary of Defense. The legislative history of the act provides some evidence that, in determining relative costs, DOD will follow the cost comparison guidelines of Circular A-76 to achieve the desired objective.

A current congressional restriction on the DOD CITA program provides that functions cannot be contracted out (1) to circumvent any civilian personnel ceiling, or (2) unless the Secretary of Defense provides to the Congress in a timely manner specific notifications, certifications, and reports. One of the required certifications, for example, is that the Government calculation for the cost of performance of such function by DOD personnel is based on an estimate of the most efficient and cost effective organization for performance of that function by DOD personnel. This restriction is stated in section 502 of DOD's Authorization Act, 1981. (See app. III.) DOD considers the provisions of section 502 to be permanent law which will remain in effect after fiscal year 1981 unless changed by subsequent legislation. Section 502 strengthens similar restrictions stated in section 806 of DOD's Authorization Act, 1980.

Another current congressional restriction waives the applicability of Circular A-76 to the contracting out of certain research and development activities. This restriction is stated in section 802 of DOD's Authorization Act, 1980. (See app. III.) The provisions of section 802 are also permanent law which will remain in effect unless changed by subsequent legislation.

ADMINISTRATION AND IMPLEMENTATION

An official in the Office of the Assistant Secretary of Defense (MRA&L) has been assigned responsibility for policymaking, oversight, and management of the DOD CITA program. Each service has established a central CITA office to manage its CITA program. The CITA offices are required to have access to all decision documents and respond to all requests concerning inventories, schedules, reviews, cost comparison analyses, and results of reviews and cost comparison analyses.

The policies and procedures established by Circular A-76 are further implemented by:

- DOD Directive 4100.15, "Commercial and Industrial-Type Activities," Feb. 4, 1980.
- DOD Instruction 4100.33, "Operation of Commercial and Industrial-Type Activities," Feb. 25, 1980.
- DOD 4100.33-H, "DOD In-House vs Contract Commercial and Industrial Activities Cost Comparison Handbook," April 1980.

All DOD components are required to compile an inventory of their CITA's and certain service contracts. The 1979 inventory, which was completed in August 1980, is summarized as follows:

	<u>Number of CITA activities</u>	<u>Annual operating costs</u> (billions)	<u>Capital investment</u>
Army	2,941	\$ 7.1	\$ 3.2
Navy/Marine Corps	6,268	6.1	10.0
Air Force	5,624	3.6	4.8
Other DOD Components	454	.2	1.0
<b>Total</b>	<u>15,287</u>	<u>\$17.0</u>	<u>\$19.0</u>



	Staff-years		
	Civilian	In-house Military (thousands)	Contractor
Army	74.6	10.9	46.9
Navy/Marine Corps	154.6	84.6	39.0
Air Force	97.5	101.0	61.8
Other DOD Components	15.3	1.5	1.3
Total	<u>342.0</u>	<u>198.0</u>	<u>149.0</u>

Responsible officials in the Office of the Assistant Secretary of Defense (MRA&L) told us that all in-house activities will be scheduled for review within the 5-year period extending through 1984 and that this will be the first total review of these activities ever performed. After 1984 the in-house activities will continue to be reviewed once each 5 years.

The DOD regulations require that each CITA be reviewed to determine whether the present method of performance should be continued or if the function should be scheduled for cost comparison analysis for possible change in the method of performance. The review is performed by command or base level officials depending on the service's desired approach.

A CITA review consists of an assessment of the function to see whether it is essential to keep it in-house either because of national defense requirements, such as military capability, readiness, deployability, training, or overseas rotation base reasons, or because no satisfactory commercial source is available. If the review shows that in-house performance is not essential for these reasons, the function is scheduled for a cost comparison analysis to determine whether it is more economical to keep it in-house or contract it out. Some of the next major steps in the process are to (1) publicly notify all interested parties, including the Congress, that the function will be studied for possible contracting out, (2) evaluate the function to determine its most efficient, cost-effective operation, (3) perform the cost comparison in accordance with DOD 4100.33-H (essentially the Circular A-76 cost comparison handbook requirements), (4) perform an independent review of the cost comparison, (5) decide whether to keep the function in-house based on lower cost or contract it out if the cost of that method of performance is lower, (6) notify the Congress of a decision to contract out, by providing it with a detailed summary of the cost comparison; a certification that the Government calculation is based on an estimate of the most efficient, cost effective organization; and a report showing the economic impact on the

employees, and local community and Federal Government if more than 50 employees are involved, the effect on the military mission of the function, and the amount of the contractor's bid, the Government's estimate, and other contracting costs, and (7) when appropriate, award the contract.

DOD began compiling data on CITA reviews in April 1978, and by October 23, 1980, it had listed 207 decisions to convert in-house functions to performance by contract. Eighty of these decisions were made using the March 29, 1979, revised Circular A-76 which became effective in DOD on October 1, 1979. Appendix I shows the number of conversions and positions eliminated by type of function. The same information by military service is as follows:

<u>Military service</u>	<u>Rules in effect before October 1, 1979</u>		<u>Rules in effect since October 1, 1979</u>	
	<u>No. of conversions</u>	<u>No. of positions eliminated</u>	<u>No. of conversions</u>	<u>No. of positions eliminated</u>
Army	20	580	45	3,239
Navy	58	1,124	2	30
Air Force	45	2,319	33	473
Marine Corps	<u>4</u>	<u>38</u>	<u>0</u>	<u>0</u>
Total	<u>127</u>	<u>4,061</u>	<u>80</u>	<u>3,742</u>

## CHAPTER 3

### FACTORS INFLUENCING DECISIONS TO CONTRACT OUT

Each of the 12 decisions to contract out that we reviewed was based on a cost comparison which showed that there was a cost savings to do so. We found no evidence that any of the decisions was made to circumvent a civilian personnel ceiling. It is clear, however, that the military services use DOD's CITA program to reduce their civilian work force. The cost savings by contracting out were generally attributable to differentials in personnel costs between in-house and contractor performance. The contractors generally planned to use fewer employees and to pay them less. Although cost comparisons were used to justify the contracting-out decisions, we found questionable practices which influenced each of them. In the second largest conversion reviewed, the questionable cost comparison practice indicated that the conversion should not have taken place. The other conversions were influenced to a lesser extent by one or more of the practices. While all of the practices favored contracting out, we found no evidence in the documentation supporting the conversions that such practices were an attempt to circumvent a civilian personnel ceiling.

### PERSONNEL CEILINGS AND THE NEED TO CONTRACT OUT

The 12 conversions we reviewed were all made on the basis of lower costs determined through cost comparison analyses. (See app. IV.) The documentation supporting the conversions did not contain any evidence showing that the contracting-out decisions were made for the purpose of circumventing authorized civilian personnel levels at the involved installations. It is clear, however, that the military services recognize the CITA program as a valuable means of reducing their civilian personnel work force.

As was discussed in chapter 2, the DOD CITA program is governed by Circular A-76 and congressional policies which require conversions to be based on reasons of economy and not solely on the need to circumvent civilian personnel ceilings. This requirement is also reflected in OMB Circular A-64, revised July 30, 1980, on position management systems and employment ceilings. A provision of this circular states that:

"Any decision to substitute the use of service contracts for direct employment, \* \* \* must be based on considerations of effectiveness and economy in administering Federal programs, and must not be used as a device to avoid compliance with the ceilings."

The headquarters level CITA officials told us that once the feasibility of contracting out an in-house function has been determined and a decision has been made to perform a cost

comparison, the positions are withheld from the personnel ceiling even though the conversion has not yet been proven economical. If the cost comparison proves the in-house operation to be more economical, the positions are restored.

At 10 of the 12 installations we visited, the number of positions expected to be eliminated by the conversions were not counted in the installations' year-end authorization levels prior to completion of the cost comparison analyses. At Fort Dix, for example, the laundry and drycleaning plant positions were not included in the total authorized level for the installation. This took place after the decision was made to perform a cost comparison analysis but before the analysis was completed. An installation official said the positions would have been added back if the cost comparison showed that in-house operation was more economical. The cost comparison showed, however, that it was more economical to contract out. On a concurrent conversion study of Fort Dix's heating plant, which was not in our selection, 29 involved positions were eliminated prior to completion of the cost comparison analysis. The 29 positions were later restored when the cost comparison analysis showed it was more economical to perform the operation in-house.

In DOD's fiscal year 1981 staffing requirements statement, the Army, Navy, and Air Force stressed the importance of the CITA program in reducing their civilian personnel work force. Also, an April 1979 message from the Army's Training and Doctrine Command illustrates its view of personnel ceilings and the need to contract out. It stated, in part:

"It is now fairly certain that civilian manpower reductions will continue at about the annual rate announced by the administration. It is also clear that we will continue to be pressed to contract out BASEOPS [base operations]--pressed by withdrawal of monies and manpower, with rationale that we can do it by contract. Thus, we will be forced to contract out through a continued reduction of resources. If we don't contract, the resources will be withdrawn anyway, and BASEOPS will go just that much shorter than it already is. Therefore, need to explore all options to stay ahead of this problem. The CITF [commercial or industrial-type functions] program is one of these options."

#### PERSONNEL COST DIFFERENTIALS

We found that the cost savings by contracting out were generally attributable to differentials in personnel costs between in-house and contractor performance. The contractors generally planned to use fewer employees or a lower level of effort and to pay their employees less. Most of the employees involved in the 12 conversions were blue-collar employees.

Personnel costs are generally an important element in comparing the cost of in-house versus contractor performance, especially in labor intensive service activities. For example, in the comparisons we reviewed, Government personnel costs accounted for about 44 percent of all in-house costs.

With respect to 6 of the 12 comparisons that we reviewed, the differentials in personnel costs exceeded the savings by contracting out in 4 instances and accounted for a substantial part of the savings in two instances. The following summarizes the six comparisons:

Personnel Cost Differential as a Percentage of Contracting-Out Savings

Installation and function ( )	Personnel Costs		Contracting-out savings	Differential as a percent of savings
	In-house (note a)	Contractor Differential (000 omitted)		
Hawthorne Army Ammunition Plant (total installation support)	\$49,829	PROPRIETARY DATA DELETED	b/ \$5,185	PROPRIETARY DATA DELETED
Fort Sam Houston (custodial service)	3,209		b/ 241	
Air Force Academy (custodial service)	1,322		c/ 440	
St. Louis Area Support Center (total installation support)	8,153		d/ 3,383	
Aberdeen Proving Ground (motor vehicle maintenance)	1,871		c/ 449	
Vint Hill Farm Station (facilities maintenance)	4,200		b/ 3,268	

a/Direct labor, and fringe benefits on direct labor only.

b/3-year cost data.

c/1-year cost data.

d/2-year cost data.

In the remaining six comparisons, complete information on contractor personnel costs was not available. However, in each of these instances the cost comparison contract price, which includes, among other things, overhead and profit as well as labor, was less than the Government's personnel costs. As can be seen from the following summary, the contract price ranged from 97 percent to as low as 49 percent of the Government's personnel costs:

Contract Price as a Percentage of  
In-house Personnel Costs

<u>Installation and function ( )</u>	In-house personnel costs (note a) (000 omitted)	Contract price	<u>Percent</u>
Fort Knox (food services)	\$ 6,913	\$ 6,715	97
Fort Gordon (base operations and housing services)	98,137	86,555	88
Fort Lee (full food service)	14,820	12,826	87
Fort Dix (laundry and dry- cleaning)	2,880	2,204	77
Seymour Johnson AFB (food service attendants)	1,486	1,005	68
Fort Hood (aircraft maintenance)	5,721	2,826	49

a/Direct labor, and fringe benefits on direct labor only.

Work force size/level of effort

The contractors' personnel costs were lower than those of the Government partly because they generally planned to use fewer employees or a lower level of effort. As shown below, this was the case at 7 of the 12 installations we visited:

Installation and function ( )	No. of employees			Contract as a percent of in-house
	In-house	Contract	Difference	
Fort Knox (food services)	166		PROPRIETARY	
Hawthorne Army Ammunition Plant (total installation support)	647		DATA	
Aberdeen Proving Ground (motor vehicle maintenance)	82		DELETED	
Vint Hill Farm Station (facilities maintenance)	61			

	Staff-years		
	In-house	Contract	Difference
Seymour Johnson AFB (food service attendants)	38.5		PROPRIETARY
St. Louis Area Support Center (total installation support)	175.7		DATA
			DELETED

	Staff-hours		
	In-house	Contract	Difference
Fort Gordon (base operations and housing services)	1,878,352		PROPRIETARY DATA DELETED

At the Air Force Academy, however, the contractor planned to use PROPRIETARY DATA DELETED employees where the Government planned to use 67 employees. At the remaining four installations, appropriate information was not available.

Average wage levels

The contractors' personnel costs were lower than those of the Government partly because they generally planned to pay their employees less. Examples are shown below:

Installation and function ( )	Position	Average hourly wage rate	
		In-house	Contract
Air Force Academy (custodial service)	Supervisor	\$ 9.38	<div style="border: 1px solid black; padding: 5px;">                     PROPRIETARY                       DATA                       DELETED                 </div>
	Custodian	7.20	
Fort Knox (food services)	Manager	10.39	
	First cook	8.77	
	Baker	8.77	
Fort Gordon (base operations and housing services)	Maintenance	8.16	
	Housing	6.98	
	Food service	6.45	

		Average annual pay	
		In-house	Contract
Hawthorne Army Ammunition Plant (total installation support)	Fire fighter	\$17,368	<div style="border: 1px solid black; padding: 5px;">                     PROPRIETARY                       DATA                       DELETED                 </div>
	Painter	19,573	
	Carpenter	19,015	
	Explosive worker	16,349	
	Supply clerk	12,839	
	Electrician	20,358	
St. Louis Area Supply Center (total installation support)	Electrician	22,340	
	Laborer	16,603	
	Tractor operator	18,364	
	Warehouse worker	18,559	

Most of the employee positions involved in the 12 conversions were blue-collar positions. For example, all positions in six of the conversions were blue-collar positions.

Federal blue-collar employees generally include (1) workers in a recognized trade or craft, or other skilled mechanical craft, or in a manual labor occupation and (2) foremen or supervisors in positions having trade, craft, or labor experience and knowledge as their paramount requirement. These types of occupations are most frequently affected by the application of



Circular A-76. In September 1980 there were about 454,000 such employees working for the Government in the United States.

Wage rates for Federal blue-collar employees are determined under the provisions of the Federal Wage System, which was established pursuant to legislation approved in 1972. 1/ The law sets forth the policy that Federal blue-collar pay rates be fixed and adjusted from time to time as nearly as is consistent with the public interest in accordance with prevailing private sector rates.

Wage rates for contractor employees under a Government service contract are subject to the provisions of the Service Contract Act of 1965, as amended. 2/ The act requires that a service contractor's employees be paid at least the prevailing rates for similar employees in the locality, or the rates provided for in a collective bargaining agreement covering such employees. The act is administered by the Secretary of Labor who determines the minimum wages that contractors must pay their employees. Another provision of the act requires that each contract must contain a statement of the rates that would be paid by the Federal agency to the various classes of service employees and that the Secretary of Labor shall give due consideration to those rates in making wage determinations.

Differences in wage survey methods and other wage determination procedures have caused major differences between Federal blue-collar and contractor employee wage rates. An illustration of the effects of this situation is set forth in our June 20, 1977, report. 3/ We stated that the Air Force Academy's cost analysis indicated that the cost of contracting for food service would be 34 percent less than the in-house cost. The indicated savings were due primarily to lower wage rates paid by the contractor compared to the rates paid by the Federal Government. The contractor would have been required to pay an employee \$3.27 an hour, while the Federal Government would have paid \$5.81 an hour for the same duties. Our report further stated that (1) DOD, with the concurrence of the Civil Service Commission (now the Office of Personnel Management), determined the wage rates for Federal employees at the Academy, and (2) differences in wages between contractor employees and Federal employees could vary substantially according to industry, geographic areas, selected boundaries, and timing of required wage surveys. To improve the Federal Wage System's pay determination process, we recommended that the Civil Service Commission obtain wage information more representative of the types of services needed.

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1/5 U.S.C. 5341, et seq.

2/41 U.S.C. 351, et seq.

3/"Potential for Contracting Selected Operations at the Air Force Academy Cadet Dining Hall" (FPCD-77-57).

In a 1975 report to the Congress, 1/ we discussed the legislative provisions which were resulting in Federal blue-collar pay being higher than local prevailing private sector rates. In that report, we suggested that the Congress reconsider existing provisions pertaining to the five-step system, night differentials, and the setting of wage rates on the basis of rates paid in another wage area. More recent reports 2/ reemphasized the need for congressional action in this area.

#### COST COMPARISON PROBLEMS

The military services are generally required by law and executive branch policy to make cost comparisons before converting Government activities to contract performance. Since contracting out must be shown to be cost effective, it follows that organizational reviews of in-house efficiency and cost effectiveness relating to cost comparison analyses, the analyses themselves, and any required independent reviews of the analyses should be proper, complete, and accurate. We found questionable cost comparison practices which influenced all 12 of the contracting-out decisions reviewed. Each of the practices tended to or did overstate in-house costs or understate contract costs. The effect of each, therefore, favored contracting out.

In the case of the second largest conversion reviewed, the questionable cost comparison practice indicated that the conversion should not have taken place. In contrast, each of the remaining eleven conversions was influenced to a lesser extent by one or more additional questionable practices. However, since we did not attempt to make a complete evaluation of any cost comparison, it is possible that the outcome of some of the remaining eleven conversions could also have been affected by the combined effect of the known questionable practices and other potential ones.

#### Organizational reviews not performed

Although required, organizational reviews of in-house efficiency and cost effectiveness were not performed for 5 of the 12 selected conversions. Instead, reliance was placed on one or more of the following: (1) past staffing/management surveys, audits, inspections and/or organizational changes, (2) historical data, (3) current staffing patterns or standards, (4) tables of distribution allowances for authorized personnel, and (5) consultations with managers, employees, and/or union representatives.

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1/"Improving the Pay Determination Process for Federal Blue-Collar Employees" (FPCD-75-122, June 3, 1975).

2/"Federal Compensation Comparability: Need For Congressional Action" (FPCD-78-60, July 21, 1978) and "Wages For Federal Blue-Collar Employees Are Being Determined According To The Law, But Improvements Are Needed" (FPCD-80-12, Oct. 29, 1979).

Organizational reviews were performed for the remaining seven conversions. However, several of these, one of which was not documented, may not have served the purpose intended because they were not based on the same statements of work on which the contract prices were based. Further, one review increased the number of in-house positions from 204 to 268. Another was also not documented. Appendix V summarizes the actions taken at the installations to make organizational reviews.

As was stated in chapter 2, section 502 of DOD's Authorization Act of 1981, provides that a function cannot be contracted out unless the Secretary of Defense certifies to the Congress that the in-house cost estimate is based on the most efficient and cost effective organization the agency can provide. This restriction was also stated in section 806 of DOD's Authorization Act of 1980.

The legislative history of the restriction shows that the Secretary of Defense is required to review the function before making the certification to insure that the comparison with contractor costs provides a true basis for determining if taxpayer money can best be saved by contracting out. The fact that contract cost is less than the cost of an inefficient and poorly organized in-house function does not ensure that taxpayer money will be saved. It may be more economical to simply reorganize the in-house function. While some guidelines have been issued by the Office of the Assistant Secretary of Defense (MRA&L) regarding compliance with the restriction, they do not specifically address the need for reviews or how reviews are to be conducted.

DOD Instruction 4100.33 also requires each DOD component to ensure that every in-house activity is organized and staffed for efficiency. This is to include consideration of intraservice support and interagency support programs. <sup>1/</sup> In accordance with DOD component staffing and personnel regulations, DOD components are to precede cost comparison analyses with internal management studies and reorganizations. Circular A-76 includes similar requirements with the added wording "To the extent practicable" and "when feasible."

It is important to note that the DOD and Circular A-76 cost comparison handbooks further provide that the in-house cost estimate is to be based on the same statement of work that is used in the contract solicitation to ensure comparability and equity in the cost analysis. This means that the required organizational review should also be based on the work statement and not

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<sup>1/</sup>Our September 5, 1980, report "Consolidating Military Base Support Services Could Save Billions" (LCD-80-92) shows, however, that contracting-out studies do not consider the potential economics of intraservicing, or interservicing under the Defense Retail Interservicing Support program.

on the existing in-house structure which may be inefficient and poorly organized.

Incomplete statement of work

The statement of work in the Air Force Academy's contract solicitation for custodial services was incomplete. As a result, we estimate that work statement modifications will increase the 3-year contract price by about \$708,000. This will considerably reduce the 3-year cost savings by contracting out, which was calculated to be \$1,320,134. Although the in-house cost estimate should have been based on the same statement of work, it was based on the existing in-house operation.

The preparation of the statement of work is a critical step in the cost comparison process. It should clearly state what is to be done and must be comprehensive enough to ensure that performance in-house or by contract will satisfy the Government's requirement. It should also provide performance standards to ensure a comparable level of performance with either alternative. It must also serve as the basis for determining both the contract and the Government cost, to ensure comparability and equity in the cost analysis.

For one of the Academy's buildings, which contains a floor area of almost 1,000,000 square feet, the statement of work omitted most of the tasks required to clean 3 of the 6 floors and 8 of the 10 stairwells. Also, the specifications showed that an area to be vacuumed weekly in the fieldhouse was about 13,000 square feet when in fact it consists of about 56,000 square feet. Because of these and other deficiencies, the statement of work and contract will be modified.

Contractor's proposed costs too low

The Army awarded a 3-year cost reimbursable (cost-plus-fixed-fee) type contract for over \$57 million for the operation of the Hawthorne Army Ammunition Plant in Nevada. Of four offerors, the contractor was the only one to offer a price low enough to justify contracting out. The contract was awarded despite labor cost understatements identified by the Defense Contract Audit Agency. These costs, of between [DATA FOR OFFICIAL USE ONLY DELETED], exceeded the \$5.2 million cost savings by contracting out. If the contractor's proposed costs had been adjusted upward by the procuring contracting officer to be more realistic, the operation of Hawthorne would not have been converted to contractor performance. Further, the [REDACTED]

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Current Service Contract Act  
wage rates not used

The Air Force Academy's 3-year cost comparison for custodial service included a contract price which was understated by over PROPRIETARY DATA DELETED because a newly increased Department of Labor (DOL) wage determination, which was available, was not supplied to the bidders.

Where it is applicable, the Service Contract Act requires contracts and bid specifications in excess of \$2,500 to specify the minimum wages to be paid to employees of contractors and sub-contractors furnishing services to Federal agencies. The minimum wages are determined by DOL.

The invitation for bids, which was issued by the Air Force Academy on March 27, 1980, contained a DOL wage determination of January 22, 1980. An updated DOL wage determination was issued on April 7, 1980, which reflected a \$0.54 an hour increase. The bids were opened on April 29, 1980, and the cost comparison was completed on May 8, 1980.

If the invitation for bids included the new wage determination, the contract price which was used in the cost comparison would have increased substantially. Application of the increase to the contractor's second and third year options, based on its present work force, will result in an increase in the contract price of over PROPRIETARY DATA DELETED.

In our December 4, 1980, report, 1/ we also discussed the need to use a current DOL wage rate in a review of the conversion of one of several functions at the U.S. Military Academy. The Academy's solicitation and performance dates slipped about 5 months and 7 months, respectively, after it received a DOL rate. However, the Academy did not request a new wage determination. In adopting a recommendation by us, the Army now plans to cancel the solicitation and resolicit proposals for the activity to ensure that (1) all offerors have been given a fair opportunity to provide a best and final offer, and (2) the Government is certain that it is obtaining the most favorable price.

#### Questionable contract administration costs

Six of the 12 cost comparisons that we reviewed included contract administration cost estimates which were lower than actual contract administration costs which could be expected by the installations. The cost comparison estimates were lower because Circular A-76 requires them to be computed at 4 percent of the contract price. The actual expected costs generally ranged between 6 and 7 percent of the contract prices. Of the installations preparing the remaining comparisons, which also included the 4-percent factor, contracting officials at four believed the factor was reasonable and contracting officials at two believed that the factor was unrealistic or that actual expected costs should have been used instead of the factor.

Contract administration assures that the contract is faithfully executed by the Government and the contractor. In addition to reviewing contractor performance and compliance with the terms

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1/"Contracting Out of Selected In-House Commercial and Industrial-Type Activities at the U.S. Military Academy, West Point, New York" (PSAD-81-4).



of the contract, contract administration consists of processing payments, negotiating change orders, and monitoring close-out of contract operations. Circular A-76 requires that a 4-percent factor be applied to the contract price to obtain the estimated costs of contract administration. The factor also accounts for centralized agencywide contracting costs. All 12 installations used the 4-percent factor in determining contract administration costs for the cost comparison analyses.

Based on what we found at the installations visited, it generally appears that the standard 4-percent contract administration factor is considered reasonable for functions, such as custodial, food, and laundry and drycleaning services, but is not considered reasonable for more complex functions, such as facilities maintenance, aircraft maintenance, and total installation support. Although the factor is considered reasonable for some types of services, we did not attempt to determine for those services whether the estimated amounts were either more or less than adequate at the installation level because centralized agencywide contracting costs could be deducted from or added to such amounts, respectively. Appendix VI summarizes our findings on the standard 4-percent contract administration factor.

#### Cost comparison rules not equitable

We noted several cost comparison guidelines of Circular A-76 that do not seem to ensure comparability and equity in the cost analysis. The rules, which are discussed below, relate to unoccupied in-house positions and inflation of personnel costs for in-house employees. Application of the rules overstates in-house personnel costs, thereby favoring contracting out.

#### Unoccupied positions

Based on OMB's cost comparison guidelines, officials at Fort Gordon costed the proposed in-house work force as follows:

- Proposed positions expected to be filled by identifiable staffmembers were costed at the staffmembers' current actual pay rates, including any pay raises or step increases expected during the first year of the cost comparison period.
- Proposed positions which were not identifiable to current staffmembers were costed at step 5 of the estimated grade for general schedule positions and step 3 for wage board positions.

The guideline for unoccupied positions was significant at Fort Gordon because 479, or 42 percent, of the 1,151 positions to be eliminated were military positions, which for the purpose

of the cost comparison were converted to unoccupied civilian positions.

With respect to blue-collar positions, the provisions of the Federal Wage System establish a pay range of 16 percent at each grade with five equal steps through which employees progress based on length of service. The second step is equated to the local prevailing private sector rate. Steps 1, 3, 4, and 5 are, respectively, 96, 104, 108, and 112 percent of that rate.

Thus, the guideline in Circular A-76 requires the use of in-house, blue-collar wage rates which are higher than entry level rates and local prevailing private sector rates. 1/ In contrast, the contractor costed each hourly position at

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The following table shows for a few positions the hourly (1) Federal blue-collar wage rates for steps 1, 2, and 3, and (2) contractor's wage rates.

Position	Hourly wage rate			Contractor
	<u>1</u>	<u>2</u>	<u>3</u>	
Tire and tube repairman	\$4.90	\$5.11	\$5.31	PROPRIETARY DATA DELETED
Small appliance repairman	6.99	7.28	7.57	
Furniture repairman	7.39	7.71	8.02	
Motor vehicle operator	6.57	6.84	7.11	
Sewing machine operator	6.15	6.41	6.67	
Cook--first	6.99	7.28	7.57	
Cook--second	5.74	5.98	6.22	
Cook--helper	5.32	5.54	5.76	

If the officials at Fort Gordon could have costed out the unoccupied in-house, blue-collar positions at one of the two lower wage rates, the in-house personnel costs would have been

1/OMB's draft revision of the Circular A-76 cost comparison handbook, however, proposed the use of step 4 for general schedule positions and step 2 for wage board positions (43 Fed. Reg. 43982 (1978).)

more comparable to those of the contractor. We did not estimate the potential dollar amounts by which in-house personnel costs were overstated but, in view of the number of positions involved, they should be significant.

#### Inflation of personnel costs

Air Force Academy officials complied with a rule in OMB's cost comparison handbook by adjusting the estimated in-house costs, including direct labor costs, to account for inflation. In contrast, the contractor's bid was required, in accordance with solicitation instructions, to exclude any allowance for any contingency to cover increased minimum wages and fringe benefits which, for example, might later be applied to the contract under the Service Contract Act.

In the Academy's in-house cost study, the second and third year total costs were inflated by 4 percent (\$67,009) and 8.2 percent (\$137,368), respectively. Of these amounts, we estimate that \$43,399 in the second year and \$88,967 in the third year are attributable to direct labor costs. Thus, because of the cost comparison guideline, in-house personnel costs were overstated by at least a total of \$132,366 over the 3-year period of the comparison.

At about the same time the Academy performed its in-house cost study, DOD issued its cost comparison handbook which included supplemental guidance that modified the Circular A-76 rule on inflation of out-year costs. The guidance precluded the type of adjustment that was made by the Academy to account for labor cost inflation increases. The rule in the Circular, however, remains in effect for all civilian departments and agencies.

In a September 19, 1980, report, 1/ we also discussed an inflation adjustment. A cost comparison leading to a decision to contract out at Selfridge Air National Guard Base, Mt. Clemens, Michigan, contained \$299,000 for future inflation applied to selected Government wages which an Army appeal board later eliminated, thereby achieving comparability with the low offeror's proposal.

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1/"Army's Contracting Out of Installation Support Functions at Selfridge Air National Guard Base, Mt. Clemens, Michigan" (PSAD-80-79).

## CHAPTER 4

### CONCLUSIONS AND RECOMMENDATIONS

#### CONCLUSIONS

The most significant factor influencing decisions to convert from in-house to contractor performance was a cost savings identified by a cost comparison. Personnel ceilings did not appear to be a factor even though the military services use DOD's CITA program to reduce their civilian personnel work force.

The military services will review about 15,000 in-house activities having a total annual operating cost of about \$17 billion over the 5-year period extending through 1984. It can be expected, therefore, that a substantial number of these activities, whose total annual operating cost should also measure in the billions of dollars, will undergo a cost comparison analysis.

Given the magnitude of costs and potential savings involved, DOD must assure itself that each cost comparison provides a valid basis for agency decisionmaking. Once an activity is contracted out, and the in-house capability disestablished, we believe there is little likelihood that it will again return to Government performance.

#### RECOMMENDATIONS

##### Department of Defense

To strengthen the validity of future certifications made to the Congress regarding in-house organizational efficiency and cost effectiveness, we recommend that the Secretary of Defense issue more detailed policies, procedures, and regulations which will require (1) reviews to be performed, and (2) that those reviews be based on the same statements of work that are used in contract solicitations.

We recommend that the Secretary of the Army reevaluate the decision to contract out installation support functions at the Hawthorne Army Ammunition Plant in Nevada. The reevaluation should consider the matters discussed in this report, and include potential contract termination costs.

To better ensure that Circular A-76 cost comparisons that are prepared in the future result in cost effective decisions, we recommend that the Secretary of Defense direct the Secretaries of the Army, Navy, and Air Force to bring the following matters to the attention of their major commands and activities:

- Statements of work should be complete and in-house cost estimates should be based on the same statements of work that are used in contract solicitations.

--Contractors' cost proposals that are determined to be unrealistically low should be adjusted upward by procuring contracting officers before the contract prices are entered on the cost comparisons.

--Solicitations for bids or proposals should include current Service Contract Act wage rates.

Joint Department of Defense and  
Office of Management and Budget

To ensure that cost comparisons accurately reflect the cost of contract administration, we recommend that the Secretary of Defense and the Director of the Office of Management and Budget jointly conduct a complete review of the standard 4-percent factor required by Circular A-76. The review should include:

- An evaluation of the basis for the factor.
- An assessment of its applicability to all functions, regardless of their complexity.
- The possible development of a more accurate costing method for application where the factor is not considered appropriate, such as individual estimates of actual expected cost or a series of rates to apply to the various types of functions that are candidates for contracting out.
- An analysis of the feasibility and practicability of establishing controls to limit the funding of contract administration costs, except as otherwise justified in unusual circumstances, to a level consistent with the results of the overall review. The purpose of the limitation would be to discourage agencies from funding contract administration costs in excess of the amount otherwise considered appropriate for the cost comparison.

Office of Management and Budget

To provide greater comparability and equity in the cost comparison process, we recommend that the Director of the Office of Management and Budget assess the need to modify the Circular A-76 guidelines for costing out:

- Unoccupied in-house positions.
- Inflation of personnel costs for in-house employees.

AGENCY COMMENTS

As instructed by the Committees' offices, we did not obtain agency comments because the issuance of this report would have been delayed.

NUMBER OF CONVERSIONS ANDPOSITIONS ELIMINATEDBY TYPE OF FUNCTION--ALL SERVICESAPRIL 1978 THROUGH OCTOBER 1980Rules in effect before October 1, 1979, used

<u>Function</u>	<u>Conversions</u>	<u>Positions eliminated (note a)</u>
1. Audiovisual activity	10	374
2. Automatic data processing	8	106
3. Base operations	1	200
4. Base supply	1	363
5. Bulk liquid storage	5	104
6. Bus service	2	21
7. Commissary shelf stocking	13	226
8. Custodial service	17	278
9. Food service	3	175
10. Guard service	8	147
11. Laundry and drycleaning	10	430
12. Maintenance:		
Avionics	1	10
Bomarc missile	1	106
Building & structures	5	56
Communications center	1	24
Family housing	2	28
Grounds	5	39
Microwave system	1	10
Motor vehicle	1	48
Radio receiving	2	47
Radio transmitting	5	381
Real property	1	15
Surfaced areas	2	21
Water/sewage plant	1	8
13. Messenger service	1	9
14. Motor vehicle operations	1	5
15. Packing and crating	1	10
16. Patch and test communications	3	41
17. Precision measurement equipment laboratories	5	370
18. Refuse collection	8	89
19. Tracking facility	1	267
20. Wearing apparel	1	53
Sub-total	<u>127</u>	<u>4,061</u>

a/Total number of civilian and military positions authorized for each function.

Rules in effect since October 1, 1979, used

<u>Function</u>	<u>Conversions</u>	<u>Positions eliminated (note a)</u>
1. Aircraft fueling	1	11
2. Basic training clothing issue	1	26
3. Bus service	1	5
4. Caretaker service	1	38
5. Clothing sales	1	6
6. Commissary shelf stocking	10	120
7. Consolidation and containerization	1	113
8. Custodial service	9	292
9. Food service	2	247
10. Guard service	2	40
11. Hospital linen control	1	3
12. Insect and rodent control	2	3
13. Key punch service	2	30
14. Laundry and drycleaning	2	104
15. Maintenance:		
Air conditioning	1	3
Aircraft	1	80
Base support	4	2,114
Building and structures	1	19
Electric plants	1	1
Family housing	6	47
Grounds	3	16
Heating plants	1	2
Kitchen equipment	1	2
Motor vehicle	5	157
Sewage and waste plants	1	3
Surfaced areas	1	1
Transient aircraft	2	13
Utilities	1	2
Water plants	1	2
16. Mess attendants	1	26
17. Protective coating	2	42
18. Refuse collection and disposal	6	28
19. Simulator operations	3	90
20. Wearing apparel	1	39
21. Word processing	<u>1</u>	<u>17</u>
Sub-total	<u>80</u>	<u>3,742</u>
Total	<u>207</u>	<u>7,803</u>

a/Total number of civilian and military positions authorized for each function.

LIST OF INSTALLATIONS  
VISITED WHERE FUNCTIONS WERE  
CONVERTED TO CONTRACTOR PERFORMANCE

<u>Installation</u>	<u>Function</u>	<u>No. of positions eliminated</u>		
		<u>Civilian (note a)</u>	<u>Military</u>	<u>Total</u>
<u>Army</u>				
Aberdeen Proving Ground, Maryland	Motor vehicle maintenance	82	-	82
Fort Dix, New Jersey	Laundry and drycleaning	38	-	38
Fort Gordon, Georgia	Base operations and housing services	672	479	1,151
Fort Hood, Texas	Aircraft maintenance	77	-	77
Fort Sam Houston, Texas Brooke Army Medical Center	Custodial service	76	-	76
Fort Knox, Kentucky	Food services	28	82	110
Fort Lee, Virginia	Full food service	49	45	94
Hawthorne Army Ammunition Plant, Nevada	Total installation support	647	-	647
St. Louis Area Support Center Granite City, Illinois	Total installation support	162	-	162
Vint Hill Farm Station, Virginia	Facilities maintenance	61	-	61
<u>Air Force</u>				
Air Force Academy Colorado Springs, Colorado	Custodial service	67	-	67
Seymour Johnson Air Force Base Goldsboro, North Carolina	Food service attendants	<u>26</u>	<u>-</u>	<u>26</u>
Total		<u>1,985</u>	<u>606</u>	<u>2,591</u>

a/Full-time permanent positions only.



LEGISLATIVE PROVISIONS

The following are excerpts from various laws that establish congressional policy or recurring restrictions concerning the conversion of DOD in-house activities to contract performance.

Department of Defense Appropriation  
Authorization Act, 1975, Public Law  
93-365, August 5, 1974

"SEC. 502. It is the sense of Congress that the Department of Defense shall use the least costly form of manpower that is consistent with military requirements and other needs of the Department of Defense. Therefore, in developing the annual manpower authorization requests to the Congress and in carrying out manpower policies, the Secretary of Defense shall, in particular, consider the advantages of converting from one form of manpower to another (military, civilian, or private contract) for the performance of a specified job. A full justification of any conversion from one form of manpower to another shall be contained in the annual manpower requirements report to the Congress required by section 138(c)(3) of title 10, United States Code."

Department of Defense Authorization  
Act, 1981, Public Law 96-342,  
September 8, 1980

"STRENGTHENING OF RESTRICTIONS ON CONVERSION OF PERFORMANCE  
OF COMMERCIAL AND INDUSTRIAL TYPE FUNCTIONS FROM DEPART-  
MENT OF DEFENSE PERSONNEL TO PRIVATE CONTRACTORS

SEC. 502. (a) No commercial or industrial type function of the Department of Defense that on October 1, 1980, is being performed by Department of Defense personnel may be converted to performance by a private contractor--

- (1) to circumvent any civilian personnel ceiling; or
- (2) unless the Secretary of Defense provides to the Congress in a timely manner--
  - (A) notification of any decision to study such commercial or industrial type function for possible performance by a private contractor;
  - (B) a detailed summary of a comparison of the cost of performance of such function by Department of Defense personnel and by private contractor which demonstrates that the performance of such function by a private contractor will result in a cost savings to the Government over the life of the contract and a certification that the entire cost comparison is available;

- (C) a certification that the Government calculation for the cost of performance of such function by Department of Defense personnel is based on an estimate of the most efficient and cost effective organization for performance of such function by Department of Defense personnel; and
- (D) a report, to be submitted with the certification required by subparagraph (C), showing--
  - (i) the potential economic effect on employees affected, and the potential economic effect on the local community and Federal Government if more than 50 employees are involved, of contracting for performance of such function;
  - (ii) the effect of contracting for performance of such function on the military mission of such function; and
  - (iii) the amount of the bid accepted for the performance of such function by the private contractor whose bid is accepted and the cost of performance of such function by Department of Defense personnel, together with costs and expenditures which the Government will incur because of the contract.

(b) If, after completion of the studies required for completion of the certification and report required by subparagraphs (C) and (D) of subsection (a)(2), a decision is made to convert to contractor performance, the Secretary of Defense shall notify Congress of such decision.

(c) The Secretary of Defense shall submit a written report to the Congress by February 1 of each fiscal year describing the extent to which commercial and industrial type functions were performed by Department of Defense contractors during the preceding fiscal year. The Secretary shall include in each such report an estimate of the percentage of commercial and industrial type functions of the Department of Defense that will be performed by Department of Defense personnel, and the percentage of such functions that will be performed by private contractors, during the fiscal year during which the report is submitted.

(d) This section shall take effect on October 1, 1980."

Department of Defense Authorization  
Act, 1980, Public Law 96-107,  
November 9, 1979

"WAIVER OF APPLICABILITY OF OMB CIRCULAR A-76 TO CONTRACTING  
OUT OF CERTAIN RESEARCH AND DEVELOPMENT ACTIVITIES

SEC. 802. (a) Except as provided in subsection (b), neither the implementing instructions for, nor the provisions of, Office of Management and Budget Circular A-76 (issued on August 30, 1967, and reissued on October 18, 1976, June 13, 1977, and March 29, 1979) shall control or be used for policy guidance for the obligation or expenditure of any funds which under section 138(a)(2) of title 10, United States Code, are required to be specifically authorized by law.

(b) Funds which under section 138(a)(2) of title 10, United States Code, are required to be specifically authorized by law may be obligated or expended for operation or support of installations or equipment used for research and development (including maintenance support of laboratories, operation and maintenance of test ranges, and maintenance of test aircraft and ships) in compliance with the implementing instructions for and the provisions of such Office of Management and Budget Circular.

(c) No law enacted after the date of the enactment of this Act shall be held, considered, or construed as amending, superseding, or otherwise modifying any provision of this section unless such law does so by specifically and explicitly amending, repealing, or superseding this section."

SUMMARY OF COST COMPARISON RESULTS BY INSTALLATION

<u>Installation</u>	<u>Function</u>	<u>In-house</u>	<u>Contract</u>	<u>Savings by contract</u>
<u>Army</u>				
Aberdeen Proving Ground, Maryland	Motor vehicle maintenance	\$ 10,930,545	\$ 9,583,806	\$ 1,346,739 <u>a/</u>
Fort Dix, New Jersey	Laundry and drycleaning	5,089,307	4,142,296	947,011 <u>a/</u>
Fort Gordon, Georgia	Base operations and housing services	209,956,388	189,655,494	20,300,894 <u>b/</u>
Fort Hood, Texas	Aircraft maintenance	12,548,504	11,010,944	1,537,560 <u>c/</u>
Fort Sam Houston, Texas Brooke Army Medical Center	Custodial service	4,924,263	4,683,462	240,801 <u>a/</u>
Fort Knox, Kentucky	Food services	29,784,920	28,182,484	1,602,436 <u>a/</u>
Fort Lee, Virginia	Full food service	38,506,000	38,453,000	53,000 <u>a/</u>
Hawthorne Army Ammunition Plant, Nevada	Total installation support	112,457,626	107,272,750	5,184,876 <u>a/</u>
St. Louis Area Support Center, Granite City, Illinois	Total installation support	19,385,219	16,002,229	3,382,990 <u>d/</u>
Vint Hill Farm Station, Virginia	Facilities maintenance	9,471,718	6,203,563	3,268,155 <u>a/</u>
<u>Air Force</u>				
Air Force Academy Colorado Springs, Colorado	Custodial service	5,264,723	3,944,589	1,320,134 <u>a/</u>
Seymour Johnson Air Force Base, Goldsboro, North Carolina	Food service attendants	2,477,360	1,551,200	<u>926,160</u> <u>a/</u>
Total				<u>\$40,110,756</u>

a/3-year comparison.

b/58-month comparison.

c/35-month comparison.

d/2-year comparison.

SUMMARY OF ACTIONS TAKEN AT INSTALLATIONS TO MAKE ORGANIZATIONAL REVIEWS

<u>Installation</u>	<u>Function</u>	<u>Action Taken</u>
<u>Army</u>		
Aberdeen Proving Ground, Maryland	Motor vehicle maintenance	No study. Certification based on a 1978 staffing/management survey. Workload and work force factors considered constant.
Fort Dix, New Jersey	Laundry and drycleaning	Study made.
Fort Gordon, Georgia	Base operations and housing services	Study made. No documentation.
Fort Hood, Texas	Aircraft maintenance	No study. Certification based on 1978 staffing survey and consultation with managers, employees, and union representatives.
Fort Sam Houston, Texas Brooke Army Medical Center	Custodial service	No study. Cost comparison based on historical data and staffing patterns.
Fort Knox, Kentucky	Food services	Study made. Preceded CITA review and preparation of statement of work.
Fort Lee, Virginia	Full food service	Study made. In-house positions increased from 204 to 268.
Hawthorne Army Ammunition Plant, Nevada	Total installation support	Study made.
St. Louis Area Support Center, Granite City, Illinois	Total installation support	No study. Tables of distribution allowances for authorized personnel used for cost comparison. Also relied on past audits, surveys, and inspections.
Vint Hill Farm Station, Virginia	Facilities maintenance	Study made.
<u>Air Force</u>		
Air Force Academy Colorado Springs, Colorado	Custodial service	Study made. No documentation. Cost comparison based on in-house organ- ization, not statement of work.
Seymour Johnson Air Force Base, Goldsboro, North Carolina	Food service attendants	No study since its need was not emphasized. Staffing standards were considered effective but increased staff-years from 26 to 38.5.

## ANALYSIS OF 4-PERCENT CONTRACT ADMINISTRATION COST FACTOR IN CIRCULAR A-76 BY INSTALLATION

Installation	Function	Contract administration costs (note a)		Actual expected as a percent of contract price	Comments by officials on 4-percent factor
		4 percent used in comparison	Actual expected (note b)		
<u>Army</u>					
Aberdeen Proving Ground, Maryland	Motor vehicle maintenance	\$ 159,327	\$ 270,285	6.7	(c)
Fort Dix, New Jersey	Laundry and drycleaning	88,164	180,393 <u>d/</u>	8.2	Unrealistic.
Fort Gordon, Georgia	Base operations and housing services	3,462,180	5,592,166	6.5	Probably unrealistic.
Fort Hood, Texas	Aircraft maintenance	113,020	166,040	5.9	Unrealistic.
Fort Sam Houston, Texas Brooke Army Medical Center	Custodial service	142,640	231,222	6.5	Does not cover all costs.
Fort Knox, Kentucky	Food services	-	-	-	Realistic.
Fort Lee, Virginia	Full food service	-	-	-	Arbitrary. Adequate for food but not for complicated services.
Hawthorne Army Ammunition Plant, Nevada	Total installation support	2,297,055	3,423,867	6.0	Unrealistic.
St. Louis Area Support Center, Granite City, Illinois	Total installation support	-	-	-	Preferred estimates.
Vint Hill Farm Station, Virginia	Facilities maintenance	-	-	-	Unrealistic.
<u>Air Force</u>					
Air Force Academy Colorado Springs, Colorado	Custodial service	-	-	-	Adequate.
Seymour Johnson AFB, Goldsboro, N. C.	Food service attendants	-	-	-	Realistic.

a/Excludes general and administrative expenses.

b/Actual expected costs were either estimated by installation officials or by GAO based on actual, authorized, or proposed staffing as determined by installation officials.

c/Comment not obtained.

d/The Army Training and Doctrine Command refused to fully fund the contract administration positions approved by Fort Dix, but instead limited its funding to the 4 percent amount used in the comparison.

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